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UNIVERSITY OF WOLLONGONG

DEPARTMENT OF ACCOUNTANCY

**THE INCORPORATION OF SOCIETY'S
VALUES AND EXPECTATIONS INTO
AUDITING STANDARDS**

by

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**THE INCORPORATION OF SOCIETY'S
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INTO AUDITING STANDARDS**

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ABSTRACT

One of the criticisms directed at the accounting profession is that auditing standards are determined, examined, evaluated and interpreted by accountants themselves through their professional bodies. It appears that auditing standards fall behind changes in society's values and expectations. This paper examines the need for and significance of incorporating changes in society's values and expectations into auditing standards as perceived by different groups within Australian society. This examination is based on a questionnaire survey of external auditors, company accountants, internal auditors, solicitors, academics, taxation officers, company directors and others. The study revealed that these groups support the need for the incorporation of changes in society's values and expectations into auditing standards. Although participants agreed on the need for the incorporation of changes in society's values and expectations into auditing standards they did not agree on the significance of this incorporation. This study also revealed that the perceptual differences are subjective in nature and not influenced by the participant's qualifications, income, experience, gender or marital status.

Key Words

Auditing Standards, Perceptual Differences, Perceived Independence, Society's Values and Expectations.

**THE INCORPORATION OF SOCIETY'S
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INTO AUDITING STANDARDS**

INTRODUCTION

The establishment and interpretation of auditing standards generally and independence requirements particularly have always been by committees from within the profession with little or no regard to the contribution of other groups in society. Before 1984 the Australian Accounting and Auditing Standards were entirely developed by the Institute of Chartered Accountants in Australia (ICAA) and the Australian Society of Accountants (ASA) now Australian Society of Certified Practising Accountants (ASCPA). The contribution of other members of society did not take place until 1984. The Accounting Standards Review Board (ASRB) was established in 1984 as required by the Companies Code 1981. The ASRB had very limited representation of those who have vested interest in the financial statements. The Standards' Committees either in Australia or overseas "draw most of their members from the large accounting practices, and hence the views and self interest of the large accounting firms may come to the fore of developing the guidelines. ...It would appear, however, that the rules reflect the committees' subjective views of the perceptions of auditor independence by outside parties (e.g. investors, bankers, creditors)." [Firth, 1980, p.453]

Auditing standards are concerned with auditors' acts as to the actual work to be done and the behaviour that could have an impact on the acceptance of the findings of the actual work. The standards regulating auditors' behaviour are known as independence standards and are part of the general standards while those relating to the actual work are known as performance and reporting standards. Auditing standards generally and independence requirements in particular are influenced by and subject to different national and international factors. These factors also influence and motivate the interpretation of the standards. The national factors would vary from one society to another and the international ones are influenced by political and or economic considerations.

The need for auditing standards appears to be the same but the formulation of the standards and their interpretation would vary from one society to another. The interpretation could also be modified in the same society over a period of time and such change in interpretation may lead to a change in the standards. This necessary change in the standards could be due to the importance that the society places on that part of the

standards and the nature and significance of the factor/s affecting that standard. National factors influencing the interpretation of standards and hence their formulation and reformulation could be of religious, social, economic or legal nature, or a combination of more than one factor.

An example of the national factors that could have an impact on auditing standards is the independence requirements in an Islamic state. Independence in Islam is governed by the *Quran* [the holy book of Muslims] and the *Sunnah* [The practice of the last Prophet Mohammed (Peace Be Upon Him -*PBUH*-) as to what he said, did, agreed to or permitted]. In the Islamic tenet the focus is on actual independence rather than perceived independence. Apparent independence is neither considered as an issue that could impair real independence nor recognised as a factor in the evaluation of real independence.

A further example of the impact of international factors on auditing standards are the independence standards in Germany. Although the German social, legal and economical structure is somewhat different from English speaking countries, the independence requirements are similar to those in countries such as Australia, United Kingdom, Canada and the United States of America. Independence requirements in Germany state that the auditor "must not engage in activities which are incompatible with his professional duties or with the reputation of the accounting profession." [Dykxhoorn and Sinning, 1981, p.98]

The importance of independence requirements reflects the fact that "the value of an audit opinion depends upon a public acceptance of the independence of the auditor". [Gul et al, P. 87] This acceptance implies that the role of external auditors in any society is that of an independent instrument of social control within the corporate accountability process. Accepting the fact that external auditing is a "social control" would necessitate the questioning of the impact of social values and expectations on the determination, formulation and interpretation of auditing standards. This impact should be tested from the society's viewpoint as to whether changes in society's values and expectations are to be incorporated into auditing standards generally and independence requirements specifically and the significance of such incorporation.

The importance and effect of social values and expectations stem from the fact that external auditors' independence in most countries is mostly concerned with perceived independence. This concern is evidenced by various commentators in the Middle East, U.K., Australia and the U.S.A. Examples of these are Lyall and Perks, 1976; Atkins and Atkins, 1977; Davison 1977, Stamp 1977, Firth 1980, Shockley and Knapp 1981, Abdel Karim 1990 and Gul 1991. As a perception of loss of independence has increased, the accounting professions in western countries have come under increasing pressure to take positive steps to minimise any potential for non-independence. This is due to the fact that the accounting

profession represents its members and not those who have a vested interest in the audit client.

It is necessary for those relying on the audit function to have their views on auditing standards generally, and independence requirements specifically, considered. This necessity includes amongst other things the society's perception about whether changes in social values and expectations that could have an impact on auditing standards are to be incorporated into auditing standards. This necessity stems from the fact that decision makers and society at large are affected by the audit report either directly or indirectly by means of the impact on the economy. Because of this effect they should be considered in the process of the determination, formulation and interpretation of auditing standards.

It is the general practice of the accounting profession to produce standards and assume their acceptance by the society at large and in particular by those relying on auditors' reports. They further assume that these standards are professional laws aimed at protecting the society's interest. A typical example of this is shareholders who are directly affected by the audit report in terms of its cost and reliance but have no say in the determination, formulation and interpretation of the standards affecting the reports. It seems that as far as management and auditors are concerned the shareholders are "nothing more than a necessary nuisance. They are implicitly told (Give us your money, but don't interfere)". [Estes, 1989, P.4]

From society's viewpoint the problem is to ensure that the auditor has performed the audit and prepared the report independently and that the auditor was not influenced by any personal aspirations. Actual independence could be easier to judge and accept by members of the society outside the accounting profession. This reasonable ease is due to the society's faith and belief in the auditor's adequate knowledge and appropriate technical competence. Furthermore actual independence can be maintained and judged by auditors themselves more easily than perceived independence. This is specially clear "when financial reporting standards leave less room for disagreement among auditors regarding the proper application of those standards to client circumstances". [Magee and Tseng, 1990, P.316] While apparent independence depends on society's perception of what could impair actual independence. Factors that could impair auditors' independence as perceived by the society may not coincide with that of auditors themselves.

The difficulty in establishing, interpreting, maintaining and judging apparent independence is due to numerous factors that could be sensed as impairing external auditors' independence. The diversity of these factors is due to the different values and expectations in various societies and the changes in these values and expectations in the same society over a period of time. Such different and changing values and expectations

could have an impact on investors' acceptance of and reliance on auditors' reports. [Zaid and Whalley, 1989] A number of studies "suggest that there is a relationship between perceived auditor independence and the investor's reliance on audited reports to make financial decisions." [Abdel Karim, P.34] These studies connote that the importance of society's perception of external auditors' independence stems from the fact that "in the long run society benefits from informed investment decisions and efficient allocation of resources". [Taylor and Glezen, 1991, p.7]

These different and changing values and expectations are often influenced by changing economic conditions. The impact of economic conditions on social values and expectations may not always be direct. In most cases changes in social values and expectations are indirectly affected by religious, legal or other factors. The Institute of Chartered Accountants in Australia (ICAA) has recognised the effect of changing economic conditions on practices that are considered inconsistent. The ICAA did not mention the effect of economic conditions on what is currently considered consistent and may become inconsistent. The Rules of Ethical Conduct No.1, (REC 1) states that "Economic and social conditions are constantly changing and activities which once would have been considered inconsistent with the practice of public accountancy now form part of such practice." [Para.20] The effect of changing conditions and whether of a social nature or not was recognised by Moffitt J. in the case of Pacific Acceptance Corp Ltd v Forsyth [1970] 92 WN (NSW) 29. He noted at 74, that "Reasonable skill and care calls for changed standards to meet changed conditions or changed understanding of dangers ...". [Gul et al, 1991, p.45]

Society's values and expectations could have an impact on auditing standards generally and independence requirements particularly. This is because a relationship between auditing and society's values and expectations exists due to the nature of auditing "as a socially-constituted activity". [Humphrey and Moizer, 1990, P.217] It is also held that "if an auditor is not independent then his opinion on a company's financial statements will be of no value." [Firth, 1980, p.451] This statement reflects the economic value of auditing and addresses the concern of lack of independence which in turn reflects the nature of auditing as a socially constituted activity. This advocates that, in some societies, both actual and apparent independence are equally critical and important to the audit function as well as to both the profession and the society. This social concern about the importance of the audit function generally and independence specifically reflects the increasing reaction of the audit function to the views of the society at large. Because auditing exists "to serve society ..., it is the emphasis on public service that largely distinguishes a profession from business". [Mautz and Sharaf, 1968, P.239] It is further argued "that an auditor who is perceived to be independent will be more valued by the capital market. ...this will increase the market value of the

audit firm which will then be able to charge more fees for its audit services." [Abdel Karim, 1990, P.37]

These views suggest that auditing standards generally and independence requirements specifically should be considered in the light of changes in the environment served by auditing. Examples of the changes influencing auditing as a socially-constituted activity are the government involvement in a full state-controlled audit function as the case was in Yemen [Zaid, 1985] or the expression of willingness to get involved in accounting matters as the case was in the U.K. [Firth, 1980, p.425], or in Australia, [Walker, 1981, P.235]. Another external influential voice is the Securities and Exchange Commission (SEC) in the U.S.A. These external involvements represent the voice of governments who may or may not consider the views of other interested parties in the society. Because auditing is regarded as a socially constituted activity, the standards should be examined, formulated and interpreted with reference to the relationship between society and auditors as beneficiaries and performers of the audit function respectively. This relationship is evident in its impact on the acceptance, existence and fees of external auditing.

Changes in society's values and expectations and their legal, economic and educational effects are evidenced in a number of social issues. Some of these issues are represented in the de facto relationships, expectations of more accurate information because of enhanced technology and other issues such as equal opportunity for men and women. These changes are also apparent in the demand for auditors' social responsibility towards environmental issues and the expectation of auditor's resistant of management pressure.

AIM OF STUDY

It is often argued that auditing standards in Australia reflect the needs of the Australian society. Australia is characterised as a multicultural society formed of different ethnic groups and religions. The objective of this study is to examine the need for and significance of the incorporation of social values and expectations into the Australian auditing standards.

This study is general in nature and does not address the specific issues that should be considered in the determination, formulation and interpretation of auditing standards.

The first section of this paper explains the methodology of the study, its limitations and implications. Following that the results are presented and discussed and the paper is concluded.

RESEARCH DESIGN

Subjects

A total of 1200 questionnaires with covering letter and reply-paid self-addressed envelopes were mailed during October and November 1991 to:-

- (1) 200 registered public accountants randomly selected by the Institute of Chartered Accountants in Australia;
- (2) 200 registered internal auditors randomly selected by The Institute of Internal Auditors in Australia;
- (3) 200 solicitors randomly selected from the "Sydney 1990 Telecom Yellow Pages";
- (4) 200 academics randomly selected from all Australian States and the Northern Territory;
- (5) 200 company directors selected randomly from "Your Career 1988 Employment Directory, Australia's Top 250 Employers"; and
- (6) 200 senior officers from the Australian Taxation Office in all States and the Northern Territory. These senior officers were randomly selected by their regional commissioners.

Total questionnaires received and processed were 303 and 33 of the mailed questionnaires were returned due to change of address. Generally speaking the response rate was 25.3% while the non-response rate was 74.3% with 0.4% being the undelivered questionnaires.

It was observed that some company directors had directed the questionnaires to other executives of different occupations in the company for completion. This action led to a reduction in the number of responses prepared by directors themselves and the creation of an additional group labelled as 'others'. This additional group consists of different specialisations as will be discussed later.

The responses of registered public accountants were reclassified according to their occupations as either external auditors or company accountants. This reclassification was necessary to determine whether a difference of opinion exists between external auditors and company accountants who are members of the same professional body.

Survey

A questionnaire survey was prepared to test whether a consensus exists regarding the significance of incorporating changing social values and expectations into legal and professional auditing standards. The test was restricted to certain groups of the society who are often involved in the decision of allocating economic resources. These groups were asked to determine the significance of the following statement "Professional and legal auditing STANDARDS should accommodate changes in social values and expectations.". The significance ranked from 0-4 whereby zero significance means no need to incorporate changes in society's values and expectations into auditing standards while a significance between 1 and 4 indicates the need for the incorporation. For the purpose of this test consensus was defined as a statistically significant majority of opinion.

Independent Variable

The independent variable in this study is the incorporation of changes in society's values and expectations into professional and legal auditing standards. This independent variable is tested from the viewpoint of different groups in the Australian society who are often involved either in making decisions or giving advice on the allocation of economic resources.

Dependent Variables

In the question raised in the survey the subjects were asked to evaluate the significance of the independent variable. The dependent variables were, **0** No Significance, **1** Low Significance, **2** Average Significance, **3** High Significance and **4** Extremely High Significance.

Control Variables

Five control variables were manipulated to assist in the comparison between and analysis of responses. The control variables included in the questionnaire are occupation, age, marital status, annual income and qualifications.

Following is the preliminary data gathered regarding the control variables of individuals who participated in this study:

TABLE 1

Number and Occupation of Survey Respondents.

<u>Occupation</u>	<u>Sample Size</u>	
	<u>No.</u>	<u>Rate</u> <u>%</u>
External auditor	39	12.9
Academic/ University Level	59	19.5
Internal Auditor	53	17.5
Company Director	15	4.9
Taxation Officer	53	17.5
Solicitor	21	6.9
Company Accountant	44	14.5
Others	19	6.3
	----	-----
	303	100.0
	====	=====

Based on the rate of response for all participants and each individual group, the sample size is considered to be reasonable. This reasonableness does not imply generalisation of the findings as will be discussed later.

TABLE 2

Qualifications of Respondents

<u>Respondents</u>	<u>Qualifications</u>					<u>Total</u> <u>%</u>
	<u>Self</u> <u>Educated</u> <u>%</u>	<u>Profes-</u> <u>sional</u> <u>%</u>	<u>Tertiary</u> <u>%</u>	<u>Tert.</u> <u>& Pro.</u> <u>%</u>	<u>Uniden-</u> <u>tified</u> <u>%</u>	
External Auditors		20.5	12.8	66.7		100
Academics		1.7	20.3	78.0		100
Internal Auditors	3.8	22.6	32.1	39.6	1.9	100
Company Directors	6.7	26.7	26.6	40.0		100
Taxation Officers	3.8	22.6	32.1	39.6	1.9	100
Solicitors		9.5	23.8	66.7		100
Company Accountants		34.1	6.8	59.1		100
Others	10.6	26.3		63.1		
ALL Participants	2.3	19.5	20.8	56.8	.6	100

This table indicates that 56.8% of all respondents were academically and professionally qualified. It is also apparent that the majority of each individual group fell into the same category. This finding is especially important because it could reflect a common basis of judgement of those who have academic and professional training. Furthermore it could reflect the understanding of the impact of changes in society's values and expectations on regulated professions generally and the audit function particularly.

TABLE 3
Profile of Respondents

<u>Attribute</u>	External Co. Auditors	Acct. Acct.	Acad- emics	Inter. Co. Audit.	Co. Dire.	Tax. Off.	Soli- citors	Oth- ers	<u>All Participants</u>
	%	%	%	%	%	%	%	%	%
Single	12.8	20.5	10.2	9.4	6.7	18.9	4.8	10.6	12.9
Married	77.0	75.0	78.0	77.3	93.3	73.6	85.6	79.0	77.9
De Facto	5.1	4.5	6.8	3.8		1.9		5.2	4.0
Divorced	2.6		5.0	3.8		3.8	4.8		3.0
Widowed				1.9				5.2	.6
Unidentified	2.5			3.8		1.8	4.8		1.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Female	17.9	2.3	30.5	13.2		7.5		21.0	13.5
Male	56.5	68.2	37.3	67.9	80.0	67.9	52.4	42.1	58.4
Unidentif.	25.6	29.5	32.2	18.9	20.0	24.6	47.6	36.9	28.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table 3 shows that the majority of all respondents and the majority of each individual group were married but a significant number did not identify their marital status or gender. It could be concluded that this was a reflection of one aspect of the changes in society's values and expectations. This change indicates that gender differentiation is gradually becoming irrelevant. This finding may be worth consideration by the profession in addressing the standards and other matters in a common language that excludes gender discrimination.

TABLE 4
Age Profile of Respondents

<u>Respondents</u>	<u>Age Bands</u>					<u>Uniden tified</u>	<u>Total</u>
	21-30	31-40	41-50	51-60	>60		
	%	%	%	%	%	%	%
External Auditors	28.2	23.1	30.8	12.8	2.6	2.5	100.0
Academics	20.3	44.1	25.4	6.8	1.7	1.7	100.0
Internal Auditors	9.4	45.3	35.8	3.8	5.7		100.0
Company Directors		46.7	26.7	20.0	6.6		100.0
Taxation Officers	5.7	50.9	35.8	5.7		1.9	100.0
Solicitors		33.3	42.8	14.3	9.6		100.0
Company Accountants	18.2	52.3	22.7	6.8			100.0
Others	5.3	42.1	31.6	15.8	5.2		
All Participants	13.2	43.2	31.0	8.6	3.0	1.0	100.0

The age profile was grouped in ten year age bands ie 21-30, 31-40 etc. The information given on age can not be useful by itself but it may be used in conjunction with other data for further analysis. Age is a reflection of both life and work experience which could influence and be influenced by society's values and expectation. it can be observed that the majority of respondents fell in the 31-40 years of age except

TABLE 5

Income Profile of Respondents
Income Bands A\$000

<u>Respondents</u>	<u>20-30</u>	<u>31-40</u>	<u>41-50</u>	<u>51-60</u>	<u>61-70</u>	<u>71-80</u>	<u>81-90</u>	<u>91-100</u>	<u>>100</u>	<u>*</u>
	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
External Auditors	2.6	15.4	7.7	20.5	5.1	7.8	10.2	5.1	17.9	7.7
Academics	10.2	20.3	32.3	25.4	5.0	3.4	1.7			1.7
Int. Auditors	1.9	24.5	20.7	17.0	5.7	9.4	5.7	5.7	7.5	1.9
Company Directors				20.0	6.7				66.6	6.7
Taxation Officers		5.7	50.9	35.8				1.9	3.8	1.9
Solicitors	9.5	9.5	9.5	14.3		4.8	4.8	4.8	33.3	9.5
Company Acctnts		4.6	18.2	15.9	20.4	13.6	9.1	2.3	11.4	4.5
Others	5.2	31.7	5.2	15.9	5.2	5.2	5.2	15.9	10.5	
=====										
All Participants	3.3	12.9	25.1	21.5	6.9	5.9	4.6	3.0	12.5	4.3

*** Unidentified**

The income profile reflects a wide distribution in annual earnings amongst survey participants. Table five shows that the majority of participants earned between 41-50 thousand dollars per annum. It also shows that some of the participants were not willing to disclose this information which indicates some sensitivity about the disclosure of income by businesses and individuals generally. On the other hand 54.4 % of the survey participants were earning more than \$ 51000.

Nonresponse Bias

As stated earlier, the non-response rate was 74.3%. It is apparent that whenever the non-response rate is significant, there is always a possibility of a non-response bias. This is possible because nobody knows with reasonable certainty what would have been the response of those subjects if they had participated in the survey. The non-response rate seems to be relatively high, although Nachmias and Nachmias (1976) suggest that a response rate between 20% and 40% can be considered satisfactory.

Furthermore, bias could exist because of the absence of some information in the control variables which was labelled as "unidentified". The absence of this information may not materially affect the findings of this study but its availability could have made the comparison and analysis more accurate.

Research Limitations

The limitations identified in this paper are:

First, the selection of the categories of the subjects who participated can not be considered as fully representative of the Australian society.

Second, a non-response bias may exist because the non-response rate was 74.3% and it is impossible to determine how the non-respondents would have replied to the questions raised in the questionnaire.

Third, a bias could exist in the exclusion of shareholders, as a category, from the survey.

To overcome these limitations the following measures were followed:

1. The group labelled as "others" was incorporated in the study and related information was further analysed. The analysis of the information provided by this group revealed that it represented different fields of specialisation and includes shareholders, share registry employees, administrative officers, line managers, computer officers, company secretaries, insolvency accountants, consulting engineers, systems manager and information technology analysts. This grouping of different professional persons may overcome the problem of excluding shareholders and other groups from the survey. It also provides a reasonable degree of support to the results of this study as being representative of those concerned with auditing standards.
2. A small post sample of two non-respondents from each category was selected for an interview. The objective of the interview was to understand the reasons for the non-response of 74.3% of the population selected for the survey.

The interviewees related the non-response to a number of factors, in particular:

- (a) time factor that could have prevented recipients from responding at the time questionnaires were received;
 - (b) recipients' disinterest in and discouragement of research;
 - (c) too many questionnaires being sent to the same person or business entity;
 - (d) some of the questions raised were sensitive and information could not be disclosed.
3. The first and last five responses from each category were compared to see if the last responses were materially different from those received earlier. The comparison revealed a general distribution of responses similar to that of the entire category. Late responses could be an indication of the responses of non-respondants.

4. The exclusion of shareholders is justified in that their economic decisions are often made with the help of some professional persons. Most of those assisting shareholders in their decisions have participated in this study. Furthermore the returned questionnaires revealed that some participants, particularly directors, were shareholders.

Findings

The survey revealed that only 9.7% of the participants do not consider the incorporation of changes in society's values and expectations into legal and professional auditing standards of any significance. A majority of 90.3% of respondents as well as the majority of each group which participated in the survey considered the incorporation of changes in society's values and expectations into legal and professional auditing standards as significant.

Although 90.3% have agreed on the significance of the incorporation of social values and expectation into auditing standards, they did not agree on the level of that significance.

The level of significance shows that external auditors and solicitors are neither in agreement with the majority of other groups nor with all participants. A majority of 30.8% of external auditors believed that the significance is average while a majority of 30.0% of solicitors believed that the significance is extremely high. This is in contrast to the 40.1% of all participants, 44.8% of academics, 32.7% of internal auditors, 33.3% of company directors, 41.5% of taxation officers, 53.3% of company accountants and 57.9% of 'other' participants who were of the opinion that the incorporation of changes in society's values and expectations into legal and professional auditing standards is of **high significance**.

TABLE 6

Significance of Accommodating Changes in Social Values and Expectations into Professional and Legal Auditing Standards

<u>Respondents</u>	<u>none</u>	<u>Low</u>	<u>Average</u>	<u>High</u>	<u>Ext.High</u>	<u>Total</u>
	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
External Auditors	17.9	10.3	30.8	28.2	12.8	100.0
Academics	8.6	6.9	24.2	44.8	15.5	100.0
Internal Auditors	7.7	15.4	19.2	32.7	25.0	100.0
Company Directors	13.3	33.3	13.3	33.3	6.8	100.0
Taxation Officers	7.5	9.5	18.9	41.5	22.6	100.0
Solicitors	30.0	10.0	5.0	25.0	30.0	100.0
Company Accountants		18.6	16.3	53.5	11.6	100.0
Others	5.3		21.0	57.9	15.8	100.0
=====						
All Participants	9.7	12.0	20.1	40.1	18.1	100.0

Variations of significance were also observed in the level of significance within each group and between groups. Within the group of solicitors it was found that 30.0% believed that the incorporation of changes in society's values and expectations into legal and professional auditing standard is of no significance while 25% and 30.0 % believed that the significance is high and extremely high respectively. Furthermore one third of directors surveyed, ie 33.3% believed that the significance of incorporating changes in social values and expectations into auditing standards is low while the same percentage believed that it is high. Moreover, 30.8% of external auditors were of the opinion that the significance of incorporating changes in society's values and expectations into legal and professional auditing standards is average. These differences in the need for and significance of incorporation of changes in society's values and expectations into auditing standards could imply that the judgements made were either subjective or based on some criteria. These criteria may or may not be the control variables included in the survey such as qualifications, experience, income, gender and marital status.

To understand the reasons for differences in opinions between groups surveyed and within the group the responses were further analysed in three directions:

First, the individual responses within each group were analysed according to the control variables and compared to each other within the group. This first analysis provided no information of statistical significance that could explain the reasons for differences within each group;

Second, the opinions of all groups were analysed and compared with each other to identify those groups with opinions materially different from others. This is illustrated and discussed in table 7;

Third, each individual response within a group was analysed according to the different control variables and the responses of each group were compared to the rest of the groups under each individual control variable. The results of the third analysis are presented and discussed in tables 8 - 12.

The analysis and comparison of this data was conducted by the application of the **MANN-WHITNEY U TEST** at a 95 % confidence level. To perform the first and third analyses and comparisons the qualifications, age, income, gender, and marital status of participants were used as independent variables and the level of significance as the dependent variable.

I. Materiality of differences in opinion

TABLE 7

MATERIALITY OF DIFFERENCES IN OPINION BETWEEN GROUPS

	External Auditors	Acad emics	Internal Auditors	Company Directors	Taxation Officers	Solic itors	Company Accountants	Others
External Auditors		.0699	.0961	.5963	.0395	.2670	.0552	.0398
Academics			.9525	.0653	.6614	.8398	.8747	.4686
Internal Auditors				.0794	.7657	*****	.9249	.5624
Company Directors					.0442	.2569	.0471	.0358
Taxation Officers						.9525	.7847	.7461
Solicitors							.9664	.8940
Company Accountants								.5405

Table 7 supports the concern stated earlier about the general distribution of the responses of company directors and solicitors regarding the significance of incorporating changes in society's values and expectations into auditing standards. It also reveals additional specific information in relation to other categories as follows:

- (1) The lower the figure than .05 the more material it is considered. Accordingly the absence of any figure in the intersection between solicitors and internal auditors reflects a material difference in opinions of both categories. The reason for this sharp difference can not be identified here and could be known when the test on control variables is performed. This test will be shown in tables 8-12.
- (2) Table 7 shows that a significant difference exist in the opinion of company directors compared with those of the taxation officers, company accountants and 'others'.
- (3) Additional information is provided by this analysis which was not apparent previously. The table shows that external auditors' opinions were materially different from that of both taxation officers and the 'others'.
- (4) In general terms, academics are the only group that have an opinion distribution that is not significantly different from all other groups. Company accountants were the only group which absolutely agreed on the need for incorporating changes in society's values and expectations into professional and legal auditing standards. As stated in paragraph (2) above, company accountants opinions were significantly different from company directors.

II. Impact of Qualifications on Participants' Response

The individual responses within each group were analysed and compared with the responses of all other groups surveyed. The result of this analysis and comparison appears in table 8.

TABLE 8

THE IMPACT OF DIFFERENCES IN QUALIFICATIONS ON PARTICIPANTS' OPINION

	External Auditors	Acad emics	Internal Auditors	Company Directors	Taxation Officers	Solic itors	Company Accountants	Others
External Auditors		.2054	.3334	.1323	.0792	.8174	.4110	.5247
Academics			<u>.0179</u>	<u>.0082</u>	<u>.0003</u>	.3864	<u>.0261</u>	.1452
Internal Auditors				<u>.4612</u>	<u>.5211</u>	.2993	<u>.8581</u>	.9664
Company Directors					.7062	.1013	.4056	.5454
Taxation Officers						.0663	.4679	.6416
Solicitors							.3315	.4747
Company Accountants								.8994

Table 8 revealed that academics' responses were significantly different from all other groups except for external auditors, solicitors and 'others'. This finding contradicts finding No. 4 of table 7.

Table 2 revealed that an average of 56.8 % of all participants have academic and professional qualifications. A majority of 78 % of academics, 66.7 % of external auditors, 66.7 % of solicitors and 63.1 % of the 'others' are above that average and are academically and professionally qualified.

It can not be suggested that academics, external auditors, solicitors and 'others' are in agreement in their opinions because of their qualifications. The reason for this is that table 7 indicates that no significant differences exist between academics and all other groups. Table 7 does not indicate that the insignificance is only between academics and solicitors, external auditors and 'others'.

Furthermore, the information provided in Table 2 that 56.8 % of all participants as well as the majority of each group are academically and professionally qualified had no impact on the decisions of the majority of respondents. In addition to that the results in Table 8 do not explain the differences discussed in paragraphs 1-4 in relation to Table 7.

Accordingly, it can be inferred that qualifications did not affect the decisions made by different groups surveyed.

III. Impact of Age on Participants' Responses

As stated earlier, for the purpose of this paper it is assumed that the person's age is a reflection of life and work experience. The individual responses of each group were analysed according to age of participants and compared as a group with the responses of all other groups surveyed. Table 9 displays the significance of differences in opinions because of participants' age within each category.

TABLE 9

THE IMPACT OF AGE ON PARTICIPANTS' OPINION

	External Auditors	Academics	Internal Auditors	Company Directors	Taxation Officers	Solicitors	Company Accountants	Others
External Auditors		.5751	.6943	.2412	.9664	.1612	.3932	.3558
Academics			.1964	.0653	.3654	.0246	.7151	.1037
Internal Auditors				.2993	.6119	.1616	.0992	.4449
Company Directors					.1584	.8620	.0336	.7680
Taxation Officers						.063	.1983	.2449
Solicitors							.0107	.6181
Company Accountants								.0523

The results in table 9 do not support those in tables 7 except for the difference between company directors and company accountants. Table 9 shows that academics' opinions were not significantly different from all groups except for solicitors which contradicts Table 7.

Accordingly, it can be inferred that age had no impact on the decisions of different groups participated in the survey.

IV. Impact of Income on Participants' Responses

The individual responses of each group were analysed according to their income bands and compared with all groups surveyed. Table 10 shows the results of the comparison in terms of significance of differences.

TABLE 10

THE IMPACT OF INCOME DISTRIBUTION ON PARTICIPANTS' OPINION

	External Auditors	Academics	Internal Auditors	Company Directors	Taxation Officers	Solicitors	Company Accountants	Others
External Auditors		.0000	.0348	.0134	.0018	.5415	.8888	.9418
Academics			.0283	.0000	.0907	.0013	.0000	.0009
Internal Auditors				.0001	.5454	.0397	.0128	.0704
Company Directors					.0000	.1606	.0042	.0389
Taxation Officers						.0128	.0000	.0157
Solicitors							.4462	.7062
Company Accountants								****

This table reveals that in one way or another significant differences exist between all groups. It particularly shows that academics responses are significantly different from all other responses. The findings in Table 10 contradict those appearing in Table 7. Furthermore, it appears that the opinions of solicitors, company accountants, company directors and external auditors do not vary significantly from each other, but they do significantly differ from academics and taxation officers which does not coincide with table 7. It is also revealed that internal auditors' opinion vary significantly from all other groups except for taxation officers and this again contradicts table 7.

Accordingly, it can be inferred that the differences in opinions expressed by different individuals and groups participated in this survey were not influenced by participants' income.

V. Impact of gender on participants' responses

The objective of including gender in the survey as a control variable was to assess the validity of gender differentiation and its impact on decisions made by different groups of the society.

TABLE 11

THE IMPACT OF GENDER ON PARTICIPANTS' OPINION

	External Auditors	Acad emics	Internal Auditors	Company Directors	Taxation Officers	Solic itors	Company Accountants	Others
External Auditors		.7420	.7703	.6231	.5783	.0463	.2471	.6734
Academics			.9178	.4694	.3533	.0333	.1372	.5311
Internal Auditors				.4261	.3205	.0122	.0943	.4920
Company Directors					.9328	.1656	.6585	*****
Taxation Officers						.0710	.4679	.9418
Solicitors							.2143	.2412
Company Accountants								.7027

Table 11 reveals a significant difference in opinions between solicitors on the one hand and external auditors, academics and internal auditors on the other. This finding contradicts the information provided in table 7. The table also reveals that the decisions of company directors were significantly different from 'other'. This may be due to the absence of female participants among company directors.

Generally speaking, it can be inferred that the differences in opinions expressed by survey participants were not inspired by their gender.

VI. Impact of Marital Status on Participants Responses

The analysis of participants' response according to their marital status as appears in Table 12 revealed no significant difference at all. Likewise, this shows that individual and group decisions on the significance of incorporating changes in society's values and expectations into auditing standards were not dependent on participants marital status.

TABLE 12

THE IMPACT OF MARITAL STATUS ON PARTICIPANTS' OPINION

	External Auditors	Acad emics	Internal Auditors	Company Directors	Taxation Officers	Solic itors	Company Accountants	Others
External Auditors		.7657	.6309	.8468	.5339	.6542	.3470	.8839
Academics			.8145	.6542	.3115	.8116	.1723	.7062
Internal Auditors				.5751	.2374	.9418	.1346	.5975
Company Directors					.7634	.5872	.5850	.9664
Taxation Officers						.3218	.7263	.7400
Solicitors							.2120	.6082
Company Accountants								.5553

CONCLUSIONS AND RECOMMENDATIONS

This paper shows that there is a general consensus among different groups in the Australian society to have social values and expectations considered in the determination, formulation and interpretation of professional and legal auditing standards. This general agreement is also extended to the significance of the incorporation of social values and expectations into professional and legal auditing standards.

Although the majority of individual groups, as well as all participants, saw the significance as either high or extremely high, some respondents ranked the significance as either low or average. The significance was seen differently by different groups and by different individuals within each group surveyed. These different perceptions of individuals were not dependent on identifiable criteria.

Notwithstanding the broad agreement on the need for, and significance of incorporating social values and expectations into professional and legal auditing standards the disagreement on the level of significance should be carefully interpreted. This requires further study to pinpoint the actual reasons for such disagreement.

It can be concluded that although the accommodation of changes in society's values and expectations into auditing standards is supported by different groups surveyed it could be very hard to have a general agreement on its significance. The disagreement is a reflection of the Australian society as a multi-culture society and could be due to the absence of common grounds that identify, interpret and evaluate the society's values and expectations.

The lack of such common grounds will only broaden the expectation gap and will lead to an increasing demand for more integration between auditing standards and social values and expectations.

The common grounds can only be found in a homogenous society that is commanded by predetermined and accepted values. These commonly predetermined and accepted society's values will determine the society's expectations and will facilitate the incorporation of these values into professional and legal auditing standards.

In a multicultural society and in the absence of common grounds different values and expectations will exist. Some of these values and expectations that could impact auditing standards can be summarised as:

- I. The values and expectations of the profession itself, which may represent the values and expectations of its committee members;
- II. The values and expectations of individual auditors

which may or may not coincide with the values and expectations expressed by the profession;

III. The values and expectations of the society which could be reclassified into three different groups:

- (1) The values and expectations of those considered as direct beneficiaries of auditing standards, such as shareholders, creditors, suppliers, etc.;
- (2) The values and expectations of those who do not directly benefit from auditing standards but have vested interest in having social values and expectations incorporated into auditing standards, such as academics and environment protection groups;
- (3) The values and expectations of those who have no interest in auditing standards and auditors' reports but wish to see all legal, professional and ethical requirements reflect social values and expectations. People included in this group consist of religious persons and reformists.

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